

**YAKIMA COUNTY HEALTH DISTRICT**  
**Yakima County, Washington**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. The District Should Improve Its Accounting And Financial Reporting System And Procedures

During our audit of the district we determined that serious questions existed about the accuracy, reliability, and completeness of information in the district's accounting system due to the following material weaknesses in their accounting and financial reporting systems and control procedures:

a. Accounting Records

(1) Reasonable record retention and filing procedures were not being used by district personnel. The 1993 records were not organized and were located in boxes scattered around the district offices.

(2) The general ledger and subsidiary accounting records were not kept current and balanced monthly to help detect errors or irregularities which may have occurred in the accounting system.

b. Cash Disbursements

Many district records lacked supporting documentation and/or were insufficient in detail to determine proper classification of expenditures and legality of expenditures.

c. Cash Receipts

Cash receipt clerks performed the incompatible duties of receipting, recording, and depositing of funds and the district lacked compensating controls to offset these weaknesses. (See Federal Finding 4.)

d. Accounts Receivable

Control totals were not maintained or reconciled to detailed receivable accounts. (See Federal Finding 3.)

e. Fixed Assets

(1) The district did not maintain fixed asset records. (See Federal Finding 2.)

(2) Periodic fixed asset inventories were not taken and compared to comprehensive fixed asset listings to help detect error or irregularities.

f. Control Procedures :

- (1) The district had no complete and current accounting policies and procedures manual which would enable staff to understand how to use their system.
- (2) District employees in positions of trust were not required to take annual vacations during which their duties are performed by other personnel thereby increasing the likelihood of undiscovered irregularities.

g. Operating Environment :

- (1) District management lacked reasonable control over district operations and accounting areas such that necessary financial information was unavailable, incomplete or incorrect and major transactions often lacked documentation and/or were not recorded in a timely manner
- (2) Significant turnover in key financial positions occurred during 1993 and new personnel were not adequately informed on prior operations to answer questions or locate needed information.
- (3) Senior administrators did not use budget variance reports, operating analyses, or interim financial reports to monitor operations.

State law requires the district to properly account for financial activity in RCW 43.09.200 which states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs. (Emphasis ours.)

To satisfy the requirements of RCW 43.09.200, the district's accounting system must include adequate internal controls. The American Institute of Certified Public Accountants (AICPA) *U.S. Auditing Standards*, Section 319.69(2) states:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize, and report financial data that is consistent with management's assertions embodied in the financial statements, some of the specific objectives management may wish to consider include the following:

- Transactions are executed in accordance with management's

general and specific authorization.

- Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.
- Access to assets is permitted only in accordance with managements authorizations.
- The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to differences.

Due to the deficiencies of the district's internal control structure, its accounting system and its inability to prepare accurate and complete financial statements, we have concluded the district had significant and pervasive control problems. Therefore, we are unable to render an opinion on the district's financial statements.

We recommend the district take immediate action to correct the above noted weaknesses to enable the establishment and maintenance of current, accurate, and complete accounting records and that management review these records in a timely manner.

2. Adequate Budget Controls Should Be Established And Maintained

During our audit, we noted the following material weaknesses in the district's budgetary controls. These conditions were also noted in our 1991 and 1992 audit reports.

- a. Budget variances were not analyzed and reported on a periodic basis.
- b. Interim financial reports comparing actual results to prior results and current budgets were not prepared.
- c. District management had not established policies and procedures that require adequate support for revenue projections or other budget amendments.

As a result, the district did not determine, until January 1994, that expenditures exceeded budget appropriations by approximately \$800,000 during 1993.

Expenditures exceeded appropriations because Yakima County Health District did not maintain an adequate budget tracking system and district officials did not monitor actual revenues and expenditures in comparison to budgeted amounts.

Establishing and maintaining adequate internal control over district operations is an important management responsibility. The failure of district officials to monitor and amend the budget hinders the proper management of district and taxpayer resources.

We again recommend the district establish and maintain an adequate system of budget controls and district officials monitor actual revenues and expenditures in comparison to budgeted amounts.

3. The Yakima County Health District Should Report Unclaimed Property In Accordance With State Requirements

Yakima County Health District did not report unclaimed property in accordance with statutory requirements. We noted numerous checks which had been outstanding for more than two years. The oldest check had been outstanding since May 1988. This condition was noted in our prior audit reports of 1989-90 and 1991-92.

RCW 63.29.130 states in part:

Intangible property held for the owner by a . . . governmental subdivision . . . that remains unclaimed by the owner for more that two years after becoming payable or distributable is presumed abandoned.

RCW 63.29.170 also states in part:

A person holding property presumed abandoned . . . shall report to the department concerning the property as provided in this section . . . .

Although district management has concurred with this requirement since the issuance of our 1989-90 audit report, the district had not taken any action to comply.

By not complying with Chapter 63.29 RCW as outlined above, the Washington State Department of Revenue cannot attempt to locate owners of this property.

We recommend the district report unclaimed property in accordance with statutory requirements.

**YAKIMA COUNTY HEALTH DISTRICT**  
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**Schedule Of Federal Findings**

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1. Audit Reports Should Be Completed In Accordance With Federal Requirements

The 1993 annual audit could not be completed in a timely manner as required by federal requirements.

The delay in completion of the audit was caused by the lack of district prepared financial statements, delays in gathering needed information for the audit by district personnel, and the poor internal controls and poor condition of the accounting records, as noted in Finding 1 in the management section of this report.

OMB A-128, Section 13, Subpart f states:

The reports shall be sent within 30 days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to with the cognizant audit agency

The delay in reporting the audit results of the Yakima County Health District denies the federal government and other users timely information from which to make funding decisions and other pertinent decisions which stem from this report.

We recommend the district implement corrective action to resolve the internal and accounting control problems noted in this report. We also recommend the district gather the needed information to complete the annual audits in a timely manner so that federal reporting requirements can be achieved.

2. The District Should Maintain Fixed Asset Records

The district's accounting for fixed assets was not sufficient to safeguard public property. The district did not maintain any fixed asset records over equipment, land, and buildings. Federal and state laws require accountability and safeguarding of assets. Due to the condition of the district's records, we were unable to determine if federal funds were used to purchase fixed assets.

For any fixed assets purchased with federal funds, the Office of Management and Budget (OMB), "Common Rule", Section .32d Uniform Administrative requires:

- 1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and the cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- 2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- 3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft should be investigated.

Because the district had no fixed asset accounting system, there is an increased risk that errors or irregularities might occur and not be detected in a timely manner. In addition, we were unable to verify the accuracy of fixed assets for financial reporting purposes. Consequently, we consider the condition to be a material weakness in internal controls.

We recommend the district develop a fixed asset record keeping system to provide the district with a means of safeguarding its fixed assets against loss, damage, or theft and to comply with federal requirements for fixed assets acquired with federal funds.

3. Accounts Receivable Controls Should Be Improved

Yakima County Health District did not maintain control totals for its clinic and general accounts receivable systems. Control totals are independent summaries of detailed information posted to individual accounts. A control total is a necessary part of a receivable system and should be reconciled with the detail subsidiary receivable accounts on a periodic basis to ensure its integrity.

The district did not maintain control totals because they would have to do this manually and they planned to computerize their receivable systems in the near future.

Failure to maintain control totals results in a significantly greater risk that errors or irregularities could occur and not be detected in a timely manner. Consequently, we consider this condition to be a material weakness in internal controls.

We again recommend that the district:

- a. Establish a control total for each of its accounts receivable systems.
- b. Reconcile the control totals to the subsidiary accounts on a monthly basis.



4. Controls Over Cash Receipts Should Be Strengthened

During our audit we noted areas where controls over cash receipts should be strengthened. Cash receipts clerks performed incompatible duties of receipting, recording, and depositing funds of the district. Further, payments received by mail were not receipted or controlled by listing receipts on a master mail log.

Proper internal controls over cash receipting includes the segregation of the functions of receipting, recording, and depositing of funds. It also includes establishing control logs for payments made by mail.

The district had not established a policy and procedures manual for district operations, including cash receipting.

Failure to maintain adequate internal control over cash receipts results in a significantly greater risk that loss of public funds could occur and not be detected in a timely manner. Consequently, we consider this condition to be a material weakness in internal controls.

We recommend the district establish policy and procedures over cash receipting which include proper segregation of duties to the extent practical. We also recommend the district keep a control log for mail receipts, and use the log to reconcile receipts to deposits made.

5. Accounting Records Should Separately Identify The Use Of Federal Funds By Each Contract Or Grant

Yakima County Heath District did not separately identify expenditures of federal funds by each grant or contract as required by federal laws. Federal expenditures were commingled with all other district operating expenditures. However, we were able to locate source documentation (invoices) to support the use of federal funds and support federal reports issued by the district.

The Office of Management and Budget (OMB) "Common Rule," Section .20 *Standards for Financial Management Systems*, states in part:

(1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made . . .

(2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant and subgrant awards and authorization, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (Emphasis ours.)

Yakima County Health District did not design their accounting system to account for federal expenditures by grant or contract.

As a result there is an increased risk that errors and irregularities could occur and go undetected.

We recommend the accounting system be tailored to meet the standards for financial management systems and accumulate all necessary data for each grant/contract, including any element of federal assistance.

6. Time Sheets Should Be Completed And Approved Before Paychecks Are Prepared

During our testing of controls over the payroll system, we noticed 6 of 60 employees tested had no time sheets on file to support the pay they received. We also noted 49 of 60 employees tested had time sheets on file without any indication of department manager review and approval. However, upon inquiry of management we determined that no irregularities occurred due to the above noted weaknesses.

Good internal controls over payroll include the use and documentation of signed and approved payroll summaries to support the payment of payroll. Further, state law requires the district have records on file to prove the validity of every transaction.

District personnel stated that the district policy changed back and forth during 1993 on whether employees exempt under the Fair Labors and Standards Act were required to complete time sheets and have them approved by supervisors.

The lack of controls over payroll at the district has an increased risk that errors and irregularities in payroll will occur and go undetected.

We recommend the district establish and implement a policy requiring each time sheet to be completed and signed by all employees, and reviewed and initialed by the department manager prior to processing by the payroll clerk.